

**REPORT OF THE AUDIT OF THE  
SPENCER COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 5, 2009 Through April 15, 2010**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
SPENCER COUNTY  
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period  
May 5, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Spencer County Sheriff for the period May 5, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$9,247,347 for the districts for 2009 taxes, retaining commissions of \$309,988 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,841,677 to the districts for 2009 taxes. Taxes of \$89,457 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff's Office Lacks Adequate Supporting Documentation For Variances On Daily Checkout Sheets

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Honorable Steve Coulter, Spencer County Sheriff  
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the Spencer County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010. This tax settlement is the responsibility of the Spencer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Spencer County Sheriff's taxes charged, credited, and paid for the period May 5, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Honorable Steve Coulter, Spencer County Sheriff  
Members of the Spencer County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The Sheriff's Office Lacks Adequate Supporting Documentation For Variances On Daily Checkout Sheets

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 27, 2010



SPENCER COUNTY  
STEVE COULTER, SHERIFF  
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 5, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 859,691	\$ 1,656,378	\$ 5,470,764	\$ 1,191,845
Tangible Personal Property	12,968	36,615	59,040	38,262
Fire Protection	436			
Increases Through Exonerations	154	307	983	214
Franchise Taxes	25,630	74,668	118,302	
Additional Billings	274	666	1,473	234
Penalties	4,080	8,020	25,663	8,584
Adjusted to Sheriff's Receipt	(2)	550		2
Gross Chargeable to Sheriff	<u>903,231</u>	<u>1,777,204</u>	<u>5,676,225</u>	<u>1,239,141</u>
<u>Credits</u>				
Exonerations	2,209	4,364	14,041	3,082
Discounts	14,698	28,534	93,081	20,499
Delinquents:				
Real Estate	15,334	29,774	97,582	21,259
Tangible Personal Property	242	698	1,100	883
Franchise Taxes	121	291	662	
Total Credits	<u>32,604</u>	<u>63,661</u>	<u>206,466</u>	<u>45,723</u>
Taxes Collected	870,627	1,713,543	5,469,759	1,193,418
Less: Commissions *	<u>37,002</u>	<u>58,173</u>	<u>164,093</u>	<u>50,720</u>
Taxes Due	833,625	1,655,370	5,305,666	1,142,698
Taxes Paid	813,941	1,617,397	5,298,169	1,112,170
Refunds (Current and Prior Year)	<u>597</u>	<u>1,105</u>	<u>3,688</u>	<u>835</u>
		**		
Due Districts as of Completion of Audit	<u>\$ 19,087</u>	<u>\$ 36,868</u>	<u>\$ 3,809</u>	<u>\$ 29,693</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

SPENCER COUNTY  
 STEVE COULTER, SHERIFF  
 SHERIFF'S SETTLEMENT - 2009 TAXES  
 For The Period May 5, 2009 Through April 15, 2010  
 (Continued)

\* Commissions:

4.25% on	\$	3,326,744
3% on	\$	5,469,759
1% on	\$	450,844

\*\* Special Taxing Districts:

Library District	\$	8,197
Health District		8,625
Extension District		7,926
Soil Conservation		1,855
Spencer Fire Department		8,815
Mt Eden Fire Department		940
Watershed District		510
		<hr/>
Due Districts	\$	<u><u>36,868</u></u>

SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Spencer County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SPENCER COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 15, 2010  
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Spencer County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2009 through April 15, 2010.

Note 4. Interest Income

The Spencer County Sheriff earned \$0 as interest income on 2009 taxes.

Note 5. Sheriff's 10% Add-On Fee

The Spencer County Sheriff collected \$34,177 of 10% add-on fees allowed by KRS 134.119(7). As of September 27, 2010, the Sheriff owed \$34,177 in 10% add-on fees to his fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in interest-bearing accounts. The Sheriff's escrowed amounts were as follows:

2005	\$93
2008	\$1,084

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Jenkins, Spencer County Judge/Executive  
Honorable Steve Coulter, Spencer County Sheriff  
Members of the Spencer County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Spencer County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010, and have issued our report thereon dated September 27, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spencer County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency.

- The Sheriff's Office Lacks Adequate Supporting Documentation For Variances On Daily Checkout Sheets

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Spencer County Sheriff's Settlement - 2009 Taxes for the period May 5, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Spencer County Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Spencer County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 27, 2010



## COMMENTS AND RECOMMENDATIONS



SPENCER COUNTY  
STEVE COULTER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period May 5, 2009 Through April 15, 2010

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Supporting Documentation For Variances On Daily Checkout Sheets

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While reviewing a daily checkout sheet, a difference was noted in the amount of cash and checks when compared to the deposit ticket. The amount of checks as shown collected per the daily checkout sheet did not agree to the amount of checks shown on the deposit ticket. As a result of this, five days were randomly selected. All five daily checkout sheets had differences when compared to the corresponding deposit ticket. There was no documentation to explain the reason for the variance. Good internal controls dictate that adequate supporting documentation be maintained to explain variances. We recommend the Sheriff maintain documentation with the daily checkout sheets to explain variances.

*Sheriff's Response: Will document any change in a check or cash amount paid.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

The bookkeeper prepares the daily bank deposit and checkout sheet and then posts items to the receipts ledger. The bookkeeper prepares the monthly report that is agreed to the receipts and disbursements ledgers. The bookkeeper prepares checks for all disbursements and posts them to the disbursement ledger. The Sheriff signs all checks. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements. We recommend the Sheriff implement procedures to strengthen internal controls over receipts and disbursements such as:

- Bank reconciliation prepared monthly and agreed to the receipts and disbursements ledgers by an individual who has no access to accounting records, makes no deposits, or signs checks.
- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff could document his review by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and balance in the checkbook.

*Sheriff's Response: None*

